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# Industrial Development Board

Seventeenth session

SUMMARY RECORD OF THE 4th MEETING

Held at the Vienna International Centre, Vienna,
on Tuesday, 24 June 1997, at 3 p.m.

*President*: Mr. I. POSTA (Hungary)

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*The meeting was called to order at 3.50 p.m.*

**FOLLOW-UP TO THE SEVENTH SPECIAL SESSION: DRAFT BUSINESS PLAN OF THE INTERSESSIONAL WORKING GROUP ON THE FUTURE ROLE AND FUNCTIONS OF UNIDO** *(continued)* (IDB.17/24 and Corr.1, IDB.17/25; IDB.17/CRP.5, IDB.17/CRP.7)

**FIELD REPRESENTATION** *(continued)* (IDB.17/9)

1. **Mr. PALACIOS CEVALLOS** (Ecuador) said that, like many other developing countries, his country was taking up the challenges posed by economic globalization but considered that that process should also have a social justice dimension so that the situation of major population groups living in poverty could be alleviated. Industrial development, and hence UNIDO, could contribute to establishing a balance in the world economy and international trade relations by boosting economies at different levels of development with consequent job creation, improved product quality, fairer prices and promotion of the private sector, especially SMEs. His delegation therefore supported UNIDO's new orientation towards the promotion of sustainable industrial development and stressed the importance of coordinated international action to meet the challenges of the twenty-first century.

2. The Organization's original mandate should not be seen as a brake on its own development, but as mechanisms for shaping a modern and strengthened Organization responsive to the new challenges of the world agenda and hence worthy of Member States' political and financial support. A vital factor in transforming that vision of the future UNIDO into reality was decentralization, whereby the Organization's field offices should not only be reorganized but also strengthened in order to ensure that UNIDO remained in touch with reality.

3. His delegation agreed with the representative of Korea that full account of the views of the Organization's staff, including its management, should be taken in streamlining UNIDO and also supported the views expressed by the representative of Bolivia on behalf of GRULAC.

4. He congratulated the Director-General on the Annual Report, which reflected a serious effort to rationalize UNIDO's budgetary management and to comply with the decisions and recommendations of Member States.

5. **Mr. BENATTALLAH** (Algeria) expressed his delegation's support for the statements by the representative of Sudan, on behalf of the African Group, and by the representative of Ghana, whose Government was to be congratulated on the success of the recent Conference of African Ministers of Industry.

6. UNIDO's unprecedented financial situation and the failure of some recipient countries to honour their contractual obligations should not be viewed from the purely financial angle but should be seen as a sign of despair in the future of multilateral cooperation, a feeling which would most probably be dispelled once UNIDO had regained the confidence of all its Member States. In future, UNIDO should endeavour to secure the payment of contributions by improving its effectiveness and thus convincing Member States that their investment in the Organization would yield returns. The reform plan under consideration was therefore crucial in determining whether the Organization could win back that confidence.

7. Regarding field representation, it was vital that the Member States and the Secretariat coordinate their efforts more closely in order to work out a joint scheme. However, such a scheme would now be contingent on the final agreement emerging with regard to the business plan and should take account of the future role and functions of UNIDO. Consequently, the scheme based on document IDB.16/19 had been superseded and should be abandoned. Approval of the future UNIDO field representation structure should be linked with more precise information on the financial implications of such redeployment, the level of the staff deployed and the functions of the regional offices. In that regard, he repeated his delegation's call for abolition of the Geneva and New York offices and urged the Secretariat not to take the action recommended in paragraph 15 of document IDB.17/9 but to wait for the new guidelines that would be formulated on the basis of the business plan.

8. With respect to the latter plan, he expressed his delegation's support for the draft, which had been prepared by and for Member States and represented in all regards a viable framework for the Organization's future role and functions and, ultimately, a lifebuoy to keep it afloat. His delegation supported the following specific proposals: the grouping of future activities in two clusters; the discontinuation of the activities specified in the plan; a 20 per cent budget reduction; a compact structure consisting of three divisions with a small organizational unit attached to the Office of the Director-General to deal with policy coordination, external relations, legal advice and internal audit, while the activities of the field offices would be coordinated by the administrative and financial department, the system whereby the head of one of the three organizational components would be designated to act as deputy to the Director-General; and the strengthening of ongoing monitoring of the Organization's activities

by the Member States through a closed joint group composed of the secretariat of the Regional Group chairmen, serving as an informal coordination mechanism for improving communication between the Secretariat and Member States in the present transitional phase. Because of that group's informal character, Member States could dissolve it when it was no longer needed.

9. Concerning the level of the proposed budget reduction, his delegation supported a reduction of between 15 and 20 per cent, which would cut out the excess fat of the Organization and increase its effectiveness, including that of its parts. The recommended reduction was based on the premise that Germany, at least, would maintain its membership of the Organization. Moreover, adoption of the business plan should be accompanied by an appeal to Germany, the United Kingdom and Australia to stay in UNIDO or return to it. In considering the financial situation, his delegation operated on the principle that the budgetary restrictions applied in Member States, especially developing countries, should be extended to the international organizations. Sacrifices were the price to be paid for rehabilitation of the economic and industrial sectors of developing and transitional economy countries. His Government was interested in any type of saving to be made in the payment of contributions, savings which would add to the funds yielded by economies at the national level and would be channelled towards youth employment.

10. Finally, the spirit of cooperation shown by the Member States involved in the work on the business plan and their sense of responsibility and realism had been exemplary and should be maintained, since the road ahead was long and hard. The signal now awaited in the capitals of the developing countries was an assurance by the major donor countries regarding their commitment to funding the Organization's operational activities.

11. **Mr. AMIRKHIZI** (Islamic Republic of Iran) stressed the urgency of securing final approval of the draft business plan, which should be finalized, if at all possible, during the current session, and of preparing for its implementation in order to ensure the Organization's safe passage through the current crucial period and the continued provision of benefits to all developing countries. Consultations would also be necessary in preparation for the election of the next Director-General, who would have to be equal to the task of implementing the new reform process in all its aspects.

12. During the previous year's commemoration of UNIDO's thirtieth anniversary, Member States had reaffirmed the Organization's value as a centre of excellence for industrial development, a view echoed by the Danish evaluation, which stressed UNIDO's potential as a provider of integrated service packages geared to the specific needs of Member States with developing and transitional economies.

13. In order to benefit further from its comparative advantages, in the light of the two new activity clusters defined by the intersessional working group, UNIDO should not neglect the creation of both direct and indirect subsectoral linkages, focused on industrial services, especially those relating to human resources, i.e., training and technical and management assistance.

14. The approval of core functions and the discontinuation of non-relevant activities should not, however, have the result that the developing countries would be deprived of UNIDO's capabilities, which had been built up over a period of 30 years. To avoid that, outsourcing should be considered in connection with activities designated for discontinuation in the 1998-1999 biennium; field offices could be authorized to provide technical assistance for the relevant programmes upon request, with allocation of adequate resources, subject to reimbursement of total expenditures by recipient or host countries.

15. Regarding the two alternative budgetary reduction scenarios of 10 and 20 per cent, he felt that the former figure, at least, was inevitable in view of the withdrawal of certain Member States from the Organization. In order to determine what ceiling to place on the reduction, it would be worth exploring the following courses of action: developing a programmatic budget format and allocating posts on the basis of new activities and the completion of approved projects in the areas of the discontinued activities; allocating new posts and staff to the Division of Administration and management in general in order to enhance their efficiency and effectiveness; outsourcing the discontinued activities and reducing the Organization's divisions and senior management posts; and working out new approaches to funds mobilization and cost-sharing arrangements through the field offices.

16. In the reformed organizational structure, it was essential to improve management in general and to ensure the delegation of authority and accountability at the level of field offices as well as in middle management. Due regard should be given to equitable geographical distribution when filling posts at the senior level. His delegation was in favour of a flat organizational structure and the designation of one of the Managing Directors as acting deputy to the Director-General during the latter's absences from Headquarters.

17. The three new divisions could be structured in such a way that the division responsible for the first cluster—strengthening of industrial capacities—would cover global forum activities, investment promotion and related technologies, and coordination of field office program-

mes; the second, dealing with cleaner and sustainable industrial development, would embrace environmental sustainability and sectoral support activities; while the third would cover support activities relating to administration and operational support.

18. In conclusion, he noted that valuable opportunities had been lost owing to the lack of a clearly defined mandate for the Organization and the divergence of views among Member States. The time had come for the developed and industrialized countries to add their practical political and financial support to the commitment and cooperation already demonstrated by the developing countries.

19. **Mr. TIWARI** (India), speaking on behalf of the Asian Group, emphasized the vital importance of understanding and cooperation between developed and developing countries in achieving the goals of sustainable industrial development, namely, economic growth and universal well-being. Such a spirit of understanding and cooperation had been demonstrated by the intersessional working group, whose achievement was to be commended. It was vital to continue in the same spirit in order to transform UNIDO into a new and viable organization fulfilling the needs and aspirations of the developing countries in a context of budgetary constraints and changed realities.

20. The working group had achieved consensus in retaining those activities of UNIDO in which it had a comparative advantage internationally. In that regard, the developing countries had shown a commendable sense of realism, courage and self-sacrifice in agreeing to a list of activities to be discontinued, which had been kept as short as possible. The clustering of activities in two programmatic areas ensured a clear focus and made for savings by reducing the number of organizational divisions. In addition, numerous measures had been suggested for further savings on non-essential and less essential activities. The Asian Group considered that UNIDO should focus on the priorities and activities formulated by the intersessional working group and that its new management should follow the guidelines set out in the draft business plan. It was clear that further restructuring and downsizing would be necessary, but the fairest approach would be to defer all recruitment, promotions and separations, except for retirement, until the new Director-General had taken office.

21. He pointed out that the objective of the two proposed budgetary scenarios was not to cut the budget as an end in itself but to plough back the savings into the two main clusters indicated. That would enable developing countries to receive the assistance they required, while assuring donor countries that their contributions were being better utilized and impressing on the Secretariat the continuing need to be cost-effective.

22. **Mr. WANG BAORONG** (China) commended the realism of the Annual Report and its detailed description of UNIDO's achievements in clarifying the focus of its activities and establishing priority areas, while also producing practical results in the reform of its internal structure, work procedures and operational mechanisms. The increase in new technical cooperation projects approved and the simultaneous decrease in administrative and operational costs as a proportion of the budget had resulted in a welcome increase in the per capita implementation rate.

23. It was regrettable that, notwithstanding the success of the reforms undertaken, UNIDO was not yet delivered from its crisis. In that connection, his delegation endorsed the regrouping of UNIDO's activities proposed in the draft business plan into two clusters, but any change in its organizational structure should enable UNIDO to function normally as an independent specialized agency and to take full account of the real needs and interests of the developing countries. As to the focus of its activities, UNIDO should concentrate on its areas of comparative advantage, such as the Global Industrial Forum, the provision of information on international industrial trends, dissemination of industrial information urgently needed by developing countries, promotion of industrial technology transfer, assistance for the technological renovation of SMEs and the dynamic development of investment promotion activities through existing UNIDO networks.

24. Further internal adjustments were necessary to streamline the Secretariat and increase its efficiency, accountability and transparency. UNIDO should continue its efforts to cut down administrative expenditure while using its limited resources to the maximum for operational activities. In that regard, it was to be hoped that all Member States might reach a common understanding on UNIDO's future through consultations leading to renewed confidence in its ability to play an important and continuing role in the promotion of the economic development and the strengthening of North-South and South-South cooperation. At a time when the economic interdependence of States was increased by globalization and trade liberalization, assistance provided by developed countries to developing countries in order to accelerate their industrialization and eradicate poverty would ultimately yield dividends for the developed countries by creating more extensive markets and investment opportunities, while also making for greater peace and tranquillity.

25. His delegation therefore appealed to all Member States to pay their assessed contributions in a timely manner and called on the developed countries in particular

to increase as far as possible their development aid to developing countries and to take practical action to support UNIDO.

26. **Mr. BOURITA** (Morocco) noted the particular importance of the current session of the Board, taking place as it did very shortly after the special session devoted to the future of UNIDO. There would thus be an opportunity to examine and possibly adopt the report of the intersessional working group. The group's work had been informed by a spirit of responsibility and cooperation, despite several difficult moments due to differences in approach and position. While broad agreement had been achieved on most parts of the draft, two fundamental issues were still unresolved—the Organization's budget and structure.

27. With regard to UNIDO's future activities, the Secretariat should give a broad interpretation to those retained and a restrictive one to those designated for discontinuation. Otherwise, recipients of technical assistance might be discouraged by excessively constrictive implementation procedures.

28. The approach adopted in the draft business plan with regard to preparation of the budget, namely, the indicative reduction levels of 20 and 10 per cent, had preserved consensus, at the price, however, of failing to solve the Organization's financial problems once and for all. Although the Secretariat note contained in document IDB.17/CRP.7 stated that budget reductions in excess of 10 per cent would severely strain the Organization's capacity to deliver its services in an effective and efficient manner, his delegation would await with great interest any proposals on the subject put forward by the Secretariat in the coming months. In that connection, three principles were of vital importance. In the first place, UNIDO's mandate, the impartiality of its operations and the critical mass necessary for the smooth functioning of its services should be safeguarded. Second, the savings achieved in administrative areas should be largely ploughed back into technical cooperation programmes. Third, UNIDO's financial problems could not be solved unless Member States paid their arrears in contributions, which amounted to over US$ 142 million. In order to solve that problem, the working group should be re-established with a view to submitting specific recommendations to Member States.

29. His delegation considered that the Organization should continue to view Africa, in particular sub-Saharan Africa, as one of its priorities. It was essential to integrate Africa in the globalization process by supporting its industrialization efforts. In that connection, the initiative for a New Global Partnership for Development, launched by the Group of Seven in Lyon in 1996 and recently confirmed by the Group of Eight in Denver, was most welcome.

30. Field representation should occupy a prominent place in the Organization's reform. In that regard, while supporting the general philosophy behind the decentralization of UNIDO's activities and the broad lines of the implementation strategy proposed by the Director-General, his delegation stressed the need for intensive consultations with Member States before any final decision was taken on the matter.

31. While the working group had clearly fulfilled its mandate in presenting its progress report and the draft business plan, there was nothing to prevent States from continuing to hold informal consultations with a view to monitoring the process and making possible a final decision on outstanding matters at the next General Conference. The draft business plan provided a more or less workable framework for reform, but the acid test would be the implementation of its various elements. Ongoing evaluation of the results of the reforms proposed should be carried out on the basis of clear indicators; for that reason, his delegation supported the proposal made by the Swiss delegation at the seventh special session.

32. The current reform exercise had initially been triggered by the announcement of certain Member States of their intention to leave the Organization, but the refocusing of UNIDO's activities, the improvement of its services and the streamlining of its management had already been an urgent necessity for a long time. In many regards, the draft business plan no doubt gave the political signal so keenly sought by the major contributors. It was high time that the latter sent the developing countries, in return, more reassuring messages regarding their commitment to the Organization, to ensuring its continuation under optimum working conditions and, thus, to supporting the industrialization efforts of developing countries and economies in transition.

33. **Mr. SPINA** (President of the UNIDO Staff Council) said that, despite the vindication of UNIDO's role represented by the Danish evaluation report and although the Organization's delivery of technical assistance was not only meeting expectations but had exceeded forecasts in many areas, it was nevertheless true that UNIDO and its staff could not continue indefinitely to stretch themselves to meet growing demands with ever fewer resources. They needed sufficient time to adjust and react to the new directives from Member States. While the direction provided by the latter was essential, the commitment of the staff was also vital for success.

34. Whatever reforms were decided upon, a team approach would be necessary if UNIDO was to fulfil its unique mandate within the United Nations system and to make the best possible use of the human and financial resources at its disposal. That team should include the staff if it was to succeed and it should have clear object-

ives, the role of each player being well defined. Effective teamwork in the United Nations environment was not always an easy matter, but could be achieved given sufficient time. It was also vital that the administrative system be able to assign and evaluate properly the work of teams and their members, a function which was unfortunately not being adequately tackled by the Performance Assessment System currently under review.

35. He appealed to Member States to assign top priority to retraining existing staff for redeployment to meet the challenges of the future; for that purpose, senior management should identify precisely what skills would be needed to carry out Member States' wishes. Such a proactive approach was preferable to squandering an ever shrinking budget on external recruitment, superannuation, consultancy fees, special advisers, separation settlements and the like. After all, there was complete justification for relying on existing staff members to show the adaptability and dedication so often commended by Member States and the Director-General. Furthermore, it did not seem logical to continue to recruit senior-level management staff when Member States were still debating UNIDO's new organizational structure. With a little foresight and planning, existing staff could be groomed to assume leadership positions and the career aspirations of female staff could also be given more serious consideration, in line with the repeated demands of Member States.

36. He recalled the covenant among Member States, administration and staff proposed by the Staff Council at the recent special session of the Board to achieve the goal of industrial development and stressed that the only cost implied by such an approach was that of shared decision-making and renewed trust among all three parties. Staff should be an integral part of the process of formulating reforms and had already shown that they could be trusted to keep Member States informed regarding their concerns and to contribute to the various scenarios proposed for the Organization's future. If staff were to be part of the team, they should also be heard.

37. Care should be taken when reorganizing the Secretariat to place staff members in posts where they could make the greatest contribution to UNIDO. If the proposed reforms to decentralize Headquarters activities to the field were genuinely to improve the delivery of services, the selection of staff for those posts should be based on experience and qualifications rather than considerations of convenience. The staff would pay particular attention to future developments in that regard.

38. Finally, he stressed the importance of the current deliberations in determining UNIDO's future course and whether it could subordinate politics to a genuine commitment to humanity and the building of a bridge of permanent trust to carry the Organization into the twenty-first century. As stated by the Secretary-General, the burden of the decision on UNIDO's future was to be made in Vienna and not in New York. There was much to be lost if the right decisions were not taken to build a new and successful UNIDO for the coming years.

39. **Mr. KHALIL** (Tunisia) wished to know what was the response of the Secretariat to the information just provided by the President of the Staff Council to the effect that high-level personnel were being recruited despite the current phase of restructuring of the Organization.

40. **Mr. DE MARIA Y CAMPOS** (Director-General) said that, of the very few posts currently open for recruitment, most covered extremely specialized needs. For instance, the large increase in the number of project approvals under the Montreal Protocol programme had entailed the recruitment of additional personnel to meet the Organization's obligations under that programme. As to the other posts remaining to be filled, there had recently been a general freeze on senior-level recruitment, but decisions would need to be taken in the near future on some key cases.

41. **Mr. LAESSIG** (Director, Personnel Services), said that the two staff categories in respect of which recruitment was continuing comprised highly technical posts and very senior positions considered essential for maintaining business in the Organization. In the latter category, only two vacancies were currently under consideration, namely, the D-2 post of Director, Country Programmes and Funds Mobilization Division, and the D-1 post of Director, External Relations Services.

42. In connection with the reform of field representation, the establishment of subregional offices on a pilot basis was being proposed. The related posts would preferentially be filled internally, provided that qualified candidates were found, and primarily through transfers from Headquarters to the field.

43. **Mr. HALIM MOHAMED** (Sudan), speaking on behalf of the African Group, said that the Group had actively participated in the discussions of the inter-sessional working group and had examined the various aspects of the draft business plan submitted by it (IDB.17/25, annex). He hoped that the spirit of give and take which had prevailed throughout those meetings would continue during the ensuing deliberations.

44. The Group's greatest concern had been the diminishing resources available to UNIDO as a result of the withdrawal of some Member States, which would affect the Organization's budget and programmes of activities. Africa attached great importance to UNIDO, as had been clearly elaborated at the thirteenth meeting of the

Conference of African Ministers of Industry (CAMI) and at meetings of the Organization of African Unity (OAU).

45. The reform of UNIDO should not be misconstrued as implying a reduction in programmes and activities but should be viewed rather as a refocusing and sharpening of those operations and of programme delivery. He had noted with concern the activities to be discontinued, some of which were of crucial importance to the industrial development of Africa, particularly those concerning the engineering, chemical and metallurgical industries. Care should be taken to avoid any disruption of UNIDO's programmes in the course of disengagement from those activities. The Group hoped that the future programming of operations would be made on a pragmatic basis and with continued concentration on the industrial needs of developing countries and countries with economies in transition.

46. Prominence should be given to the development of coherent strategies for competitiveness, with emphasis on small- and medium-scale industries. The Group stressed the importance to Africa's industrialization efforts of industrial human resources development since the region still lacked adequate manpower to maintain and manage its emerging technologies and industrial production processes.

47. The Group supported the decentralization of UNIDO's activities, and reiterated its call for the redeployment of UNIDO's human and financial resources from Headquarters to the field, in close collaboration and consultation with Member States and with the geographical groups concerned.

48. The two budget scenarios presented by the Secretariat in the draft business plan had been examined. The Group believed that any reduction in the budget should be realistic. It appealed to its partners to consider a moderate 10 per cent reduction as the maximum workable rate if UNIDO was to continue to perform its functions effectively. The Group would be willing to study the estimates to be prepared in connection with the two scenarios.

49. In the Group's view, the new organizational structure of UNIDO should accommodate a three-department framework and provide sufficient scope for effective management. The creation of a new, independent post of Deputy Director-General was not being contemplated. There should be effective representation of the African Group in the new structure.

50. The Group called for a strengthening of programmes dealing with Africa's industrialization. The priority accorded to that issue in the business plan was commendable. Developments concerning the Alliance for Africa's Industrialization (AAI) had been closely followed, in view of its linkages with the Industrial Development Decade for Africa (IDDA) programme. Coordination of the IDDA programme and the AAI should be further enhanced; the Group hoped that Africa, which had occupied centre stage in UNIDO's operations, would enjoy the practical benefits of those activities.

51. The Group noted with concern the inadequate information provided on African programmes, particularly the mid-term review of the IDDA and programmes dealing with the AAI, and hoped that documentation could be made available on time at future meetings.

52. Finally, the Group appealed to those Member States which had expressed a desire to leave the Organization to reconsider their position, and called upon all Member States to honour their financial obligations to UNIDO.

53. **Ms. SAEDAH** (Indonesia) said that her delegation hoped that the draft business plan on the future role and functions of UNIDO (IDB.17/25, annex) would serve as a basic guide for adapting UNIDO's priorities and orienting its activities to the new realities of the changing global economic environment. It was undeniable that UNIDO needed sufficient financial support in order to be transformed into a new and viable organization. Her delegation was therefore concerned to note the current situation regarding assessed contributions, as set out in document IDB.17/24, and hoped that all Member States would fulfil their financial obligations in order to sustain the operation of the Organization.

54. Her delegation regarded field representation as a key instrument for successful technical cooperation delivery to recipient countries. It accordingly supported the UNIDO field representation programme and welcomed the introduction of significant innovations in the role of UNIDO Country Directors (UCDs), who would also be responsible for mobilization of financial resources at the field offices. However, in current circumstances, field representation was severely hampered by uncertainty, including the termination of UNDP sectoral funding at the end of 1997. Her delegation endorsed the criteria proposed in document IDB.17/9 for establishing the field representation structure. In determining the location of subregional offices, account should be taken of existing field offices in order to ensure the continuation of ongoing projects.

55. The Indonesian delegation welcomed the proposal to establish 20 subregional field offices from 1 January 1998. Factors to be borne particularly in mind were host country Governments' readiness to contribute towards local costs, the existence of a political environment conducive to the efficient functioning of the office, the

volume and growth of UNIDO programmes, and geographical proximity to regional institutions and availability of infrastructure.

56. In connection with the Secretary-General's plans for greater integration of United Nations activities at country level, her delegation felt that the Director-General should prepare a proposal on the most appropriate arrangement for the future UNIDO field representation structure, taking into consideration the planned system-wide field representation at country level.

57. Her delegation supported the proposal for the establishment of subregional offices and agreed that two or three offices should be set up in a pilot phase, and that UNIDO should extend its network on the basis of the experience thus acquired.

58. **Mr. TIWARI** (India) said that the draft business plan on the future role and functions of UNIDO (IDB.17/25, annex) was the culmination of extensive efforts to forge a consensus among wide-ranging points of view. It gave a sharper focus to the Organization's future and clearly recognized the undiminished relevance of UNIDO to industrialization.

59. It had been acknowledged in the preamble to the draft business plan that the universal character of the Organization was to be preserved. However, the exclusion of activities in non-agro-based industries, unless they related primarily to environmental issues or to agro-based industries, would not only give rise to contradiction but would severely undermine the universal character of UNIDO. While agro-industries were of prime importance, they should not be the sole focus of industrial development, even in developing countries. Opportunities might be missed if UNIDO's role were to be so limited. Nor would it be wise to draft the future mandate of the Organization entirely on the basis of current perceptions, which might hamper the mobilization of funding from other international organizations. He therefore urged UNIDO to maintain flexibility in its mandate for meeting the wide-ranging demands of the developing countries, ensuring by setting priorities that the bulk of available resources continued to flow in the preferred direction.

60. The proposed 10 and 20 per cent budget reductions should be viewed against the backdrop of the reforms already carried out by UNIDO over the past four years, during which time it had reduced its staff by 36 per cent. To impose sudden and stiff budgetary cuts could leave UNIDO organizationally anaemic and inadequate. The budgetary reductions should be kept to a minimum and be phased in over two or three years.

61. Given the newly placed emphasis on field representation, consideration needed to be given to the suitability of the proposed three-division organizational structure, particularly as several senior-level professional posts had been abolished under the earlier reform exercise. The potential loss of organizational effectiveness if the span of control at the divisional level were unduly extended should not be overlooked. The views of the Secretariat should be sought on the ability of the proposed divisions to realize the organizational goals. His delegation believed that the overall managerial effectiveness of UNIDO could be enhanced within the available human and financial resources if decisions on its organizational structure were based on its felt needs.

62. **Mr. ABOUZEID** (Egypt) said that Egypt had always supported the reform of international organizations, in terms of adaptation, restructuring, priority setting and focusing of activities, provided that such reform was well balanced and took account of the interests of all countries and of the international community's historical responsibility towards developing countries, in particular the least developed ones, and especially the African States. UNIDO's reform had passed through many stages, culminating in the Board's decision at its seventh special session to set up an intersessional working group to further define the Organization's future role and functions, in whose discussions the Egyptian delegation had participated.

63. With regard to the draft business plan prepared by the intersessional working group (IDB.17/25, annex), his Government viewed with concern the proposal to restrict UNIDO's operations in the engineering, metallurgical and chemical industries to environmental issues and agro-based industries. There were other vitally important sectors relating to those industries in many developing countries, including Egypt, which still required UNIDO's support and consultation services, such as mining, pharmaceuticals and cement. Human resource development was a further area of considerable importance for developing countries. The developing countries had already made major sacrifices and should not be asked to make any more.

64. While Egypt believed that the Organization's budget had to reflect the level of membership, it did not agree to a budget cut of more than 10 per cent, for various reasons. The 10 per cent indicative level was equivalent to the contributions of two withdrawing Member States, although he hoped that those countries would reconsider their decision. Also, under the business plan, UNIDO would discontinue a number of technical activities; the cost of promoting the activities to be retained should form the basis for the preparation of the Organization's new budget. Thirdly, increased efforts were called for in the transitional period and any further negative effects on the budget should be avoided. Moreover, the serious shortfall in contributions to UNIDO's regular budget hampered the

Organization's planning of its future activities and greatly restricted its ability to implement projects to which it was already committed. According to document IDB.17/24 on the financial situation of UNIDO, as of 31 May 1997, only 37 out of a total of 169 Member States had paid their contributions in full for the current year, 13 States having made partial payments. In addition, financial support from UNDP for the field representation programme would cease at the end of the current year. Finally, UNIDO's utilization of the Montreal Protocol Multilateral Fund to implement a number of environmental projects would not continue for much longer.

65. His delegation believed that the change in the budget structure would affect the distribution of resources. That issue would be dealt with at the next session of the Programme and Budget Committee; the current Board session should concentrate on reaching agreement on UNIDO's future activities and on the budgetary ceiling, and should address the issue of non-payment of contributions. It might be useful to establish a means of encouraging States to effect timely payment of their dues and possibly to consider the introduction of a system of compensation for those Members which settled their contributions on time. It would also be beneficial to ensure that the Bretton Woods institutions, in particular, the World Bank, supported UNIDO's functions and role.

66. With regard to the new organizational structure of UNIDO, as set out in document IDB.17/25, the staff structure should reflect the activities which UNIDO would continue to undertake in order to meet the needs of Member States. Africa should be well represented, and one of the heads of the organizational components should be designated to serve as deputy to the Director-General, but without the establishment of a separate post.

67. He did not consider the use of the Enlarged Bureau as an advisory body to be necessary; the related paragraph in the draft business plan should accordingly be deleted. Existing channels for direct dialogue between the Secretariat and Member States were sufficient.

68. He agreed that the field representation programme should be strengthened in order to achieve effective decentralization and that subregional offices should be established through cost-sharing arrangements.

69. **Mr. KHALIL** (Tunisia) said that his country was committed to UNIDO's remaining a specialized agency, in view of its important role in the industrial development of developing countries and countries with economies in transition. At a time of growing globalization of trade and increasing competition, the developing world had an even greater need of the Organization's proven expertise and of the industrial information and statistics which it provided to enable them to select their products and improve their quality.

70. Tunisia had for some time been calling for a radical and fundamental reform of UNIDO, so that it could respond to the urgent needs of the developing countries in specific areas of direct relevance to their industries. Member States should address the issue of the future role and functions of UNIDO objectively. The draft business plan prepared by the intersessional working group on that issue (IDB.17/25, annex) was proof of Member States' willingness to assume that responsibility.

71. The definition of activities and restructuring details contained in that document should help to ensure the Organization's effectiveness and provide it with the necessary flexibility to fulfil its mandate of strengthening the industrial capacities of countries with developing and transition economies.

72. With regard to field representation, his delegation endorsed the proposal put forward in the document and the criteria set out, which were in line with the principle of decentralization, linked to deconcentration, which would make it possible for the field offices to implement decisions promptly. Tunisia had already begun to set up such an office on a cost-sharing basis.

73. His delegation regarded the budget figures contained in the document as purely indicative. The Secretariat should draw up a budget that took account of the regrouping of activities, restructuring arrangements and discontinuation of a number of activities, as set out in the draft business plan, for discussion at the forthcoming session of the Programme and Budget Committee.

74. He believed that the Enlarged Bureau would provide a useful means for intensifying dialogue with the Secretariat, not only with a view to pursuing the reform process but also to guiding management and ensuring the Organization's transparency. It thus constituted a decisive mechanism for consultations on all major issues.

75. UNIDO's financial situation, described in document IDB.17/24, gave cause for concern; prompt action was required in order to encourage all Member States to fulfil their financial obligations, so that the Organization's work programmes could be maintained and effective programme delivery ensured. The implementation of the proposed reforms would not be possible unless Member States paid their assessed contributions on time.

76. **Ms. OK** (Turkey) said that her Government regretted that it had become inevitable to reduce the functions and structure of UNIDO. It was convinced that

such a situation had arisen as a result of the inability of UNIDO's management to adapt to global changes, in accord with its staff and with Member States. Moreover, management had distanced itself from Member States and had attempted to survive by seeking selective support in return for unnecessary new recruitments. Despite the painful staff cuts of the past two years, there was general dissatisfaction with the Organization's reform process. Indeed, it had even been stated that, if UNIDO were not reformed, it should die. Whatever the percentage of the budgetary reduction, it was a sad outcome in the life of an organization that had served as the main driving force of industrial development.

77. Her delegation regretted the relinquishment of ownership of the Organization on the part of its Members, which was reflected in the huge arrears of contributions, totalling some $98.7 million from 1996 and $44 million from 1997. She urged all Member States, both developing and developed, to pay their dues. The status of developing country did not grant immunity from fulfilment of financial obligations.

78. It was a source of consolation that the business plan drafted by the intersessional working group (IDB.17/25, annex) envisaged that UNIDO would continue to pursue the implementation of its mandate to support and promote the sustainable industrial development of developing countries and countries with economies in transition. As also indicated in the plan, it was important to preserve the universal character of UNIDO. The support to be provided for SME development was necessary for the attainment of equitable and sustainable industrial development. The integration of women in industrial development was a further positive aspect provided for in the business plan.

79. Her delegation attached specific importance to UNIDO's role in the promotion of investment and related technologies and to its policy advice and global forum function, and fully supported the principle that the discontinuation of activities would apply to new projects only and not to those already approved.

80. Turkey believed that the new UNIDO should consist of three divisions, dealing respectively with the strengthening of industrial capacities, cleaner and sustainable industrial development, and administration and programme coordination, each division being headed by a managing director.

81. Her delegation strongly supported the designation of a permanent deputy to the Director-General. Continuity in management would thus be ensured and the managing directors would be relieved of certain non-technical administrative duties which they currently had to fulfil in the absence of the Director-General. The deputy would also be able to focus on cross-organizational issues, such as interaction between Headquarters and the field, quality assurance and evaluation.

82. Responsibility and authority should lie with the Director-General, Deputy Director-General and the managing directors. The practice whereby some staff members, appointed either as directors or advisers at the general management level, had assumed functions higher than those of the managing directors should be discontinued. The managing directors, together with the Deputy Director-General, should be the Director-General's advisers.

83. The Turkish delegation had always been in favour of delegating authority to the lower levels of the administration, particularly to the technical staff who implemented projects and comprised the Organization's critical mass. Unfortunately, the high capacity level of UNIDO's technical staff had not been apparent either to member Governments or the international media on account of the elitist management style of the past, in striking contrast to that of IAEA.

84. The Turkish delegation consequently supported the new concept that the relevant personnel or backstopping officers should have greater authority, the more so as it had introduced that concept during its presidency of the Board. Such an arrangement would ensure that Member States received project and programme reports directly from such staff members without having to rely solely on the higher-ranking staff.

85. The Turkish delegation was concerned with the statement by the President of the UNIDO Staff Council and requested that it be circulated to the Board. It fully shared the staff's appeal for a teamwork approach in the Secretariat and had in fact urged the Secretariat to adopt such an approach for the past two years. It was to be hoped that the new Director-General would act accordingly. The Turkish delegation also associated itself with the call on the Director-General by the Indian delegation, on behalf of the Asian Group, to stop hiring and firing until the end of his tenure and to freeze new recruitment, including recruitment of high-level staff. Vacancies should be reserved for further assessment under the new organizational structure and within the resources available at the time. She reiterated her delegation's request that the Secretariat provide a list of the staff recruited since the sixteenth session of the Board, in time for the Board's discussion of personnel issues.

86. The concept of field representation was important and the effective decentralization of activities should be ensured. Turkey endorsed the proposals in the business plan for the redeployment of resources and professional staff from Headquarters to the field, the appropriate

delegation of authority and the formulation of the key functions and responsibilities of field officers.

87. The Turkish delegation had consistently proposed the establishment of subregional and regional offices. Cost-sharing arrangements with host countries should therefore be sought. Turkey had paid its 1997 contribution for the field office headed by a National Director in Ankara and had pledged its share for 1998. It was regrettable that guidance from the Secretariat on structural and cost questions, including possible cost-sharing arrangements, related to turning the field office in Turkey into a regional office had not been forthcoming. A number of criteria applied to the establishment of such offices, including a functionally advantageous geographical location and political and industrial cooperation between countries under consideration, which should also be willing to contribute financially; UNIDO should do its part to ensure the necessary coordination.

88. The Turkish delegation supported the utilization of the Enlarged Bureau as a consultative mechanism between Member States and the Secretariat. Continuous dialogue between the two was essential to the survival of UNIDO and the Board was urged to express its agreement to that concept.

89. **The PRESIDENT** said that Turkey's requests had been noted. A paper on staff recruitment would be made available in time and the statement by the President of the UNIDO Staff Council would also be circulated.

90. **Mr. AL-RACHACH** (Saudi Arabia) said that developing countries looked to UNIDO for services to support their industrial development programmes and to activate technical cooperation among them. UNIDO had clearly achieved some success despite the difficult circumstances prevailing, as the Director-General had indicated in his message in the Annual Report for 1996 (IDB.17/10). It was also clear, however, that the Organization's success would depend on the commitment of Member States to giving positive support to those efforts.

91. Having participated in the intersessional working group on the future role and functions of UNIDO and in preparing the draft plan to enable the Organization to adapt its functions and priorities to changes in the international economic environment, his delegation appreciated the reasons in favour of and against the fundamental plans, and intended to do everything possible to implement the agreed plan in order to ensure the Organization's effectiveness.

92. When putting the plan into practice, however, the Organization should bear in mind, as far as these grouping of activities to strengthen industrial capacities was concerned, that more attention should be paid to the development of human resources for industry and greater support at the institutional and project levels in providing the necessary operational means to reorient the programme into the five specific product areas identified in paragraph 4 of IDB.17/6.

93. While certain activities might be discontinued, Saudi Arabia supported the continued implementation of build-operate-transfer activities as an appropriate mechanism for investment, and the transfer of technology for purposes of the industrial infrastructure; both were vital elements for sustainable industrial development in the developing countries. The lack of scientific certainty as to the effects of greenhouse gases should also be noted, so that all energy sources could be treated fairly.

94. Saudi Arabia supported the Secretariat's views on reformulating the programme and budget document for 1998-1999, particularly in relation to measures to simplify UNIDO's organizational structure and increase its effectiveness.

95. The proposal to establish more field offices was sound. However, its implementation depended on providing the basic qualitative and quantitative capacities for success, the most important of which was the assessment of specialized human resources and appropriate communications facilities with Headquarters in Vienna to facilitate cooperation, exchange of views, and the provision of advice and guidance. That in turn would strengthen capability at Headquarters and increase effectiveness in interaction with the field offices.

96. Efforts relating to the new organizational structure and changes to fundamental programmes during the current transitional stage should concentrate on serving the essential needs of the developing countries, as well as on the reform process itself.

97. As a new Director-General would shortly be appointed, the Board should have an opportunity to discuss issues in the light of the decisions and viewpoints of the Board and the General Conference. Effective action should then be taken accordingly, within the financial resources to be agreed upon the Board and the General Conference. Further consideration should also be given, at an appropriate time, to reviewing developments and resetting the course as required.

98. **Mr. MANCZYK** (Poland) said that his Government favoured reforming UNIDO rather than dismantling it, in view of the Organization's paramount importance for the industrialization of the developing countries and countries in transition, and the significant role of multilateral cooperation. The declared withdrawal of certain countries and the emerging financial crisis were

matters of serious concern. In that connection, account had been taken of the opinions of many Member States and regional groups during consultations on the problems and future of UNIDO and preparations for the meetings of the Programme and Budget Committee and the General Conference.

99. Poland fully supported the principle of a new formula, limiting the range of UNIDO's activity to urgent problems of real importance to industrial development, and advocated eliminating where possible any duplication of functions and seeking complementarities with other international organizations such as UNDP, UNCTAD, UNEP and OECD.

100. UNIDO's role and usefulness lay in helping to solve the world's industrial and development problems. Reforms should therefore allow its activities to be adjusted to current and predictable needs of a large group of developing countries, particularly in Africa, and of countries in transition; it should also arouse the interest of industrialized countries in assisting industrial and economic development. Poland would therefore support all initiatives aimed at increasing the effectiveness and efficiency of UNIDO and updating its tasks and targets. It therefore approved the rationale of the draft business plan on the future role and functions of UNIDO and supported the concept of regrouping the Organization's activities into two areas, focusing on strengthening industrial capacities and ensuring cleaner and sustainable industrial development. It also supported the discontinuation of some activities, but added emphasis should be placed on the proposed geographical, sectoral and thematic concentration of activities.

101. Poland also supported the proposal to decentralize activities by further strengthening and developing the network of field offices. It therefore proposed that UNIDO should establish a subregional office in Warsaw to cover Central and Eastern European countries, in view of the experience, facilities, achievements and staff of the Investment Promotion Service, which had operated successfully in Poland since 1983.

102. A solution closer to a 10 per cent budget reduction would be preferable to a 20 per cent reduction, bearing in mind that all Member States should be able to benefit from the functioning of UNIDO, and that the expectations and problems of no country should be marginalized. Poland would therefore support any programme and budget proposals aimed at rationalizing the Organization's operational activities, reducing their cost and increasing their effectiveness.

103. The suggested new organizational structure of UNIDO was well adjusted to the proposed substantive and budgetary changes. Changes, some of them undoubtedly drastic, were, however, necessary in order to secure UNIDO's role under the new circumstances. To be successful, the future reform process would therefore have to be positive, properly directed, managed and implemented. Furthermore, the reform should be fully implemented, regardless of the difficulties and cost, for the benefit of the Organization and its Member States. The draft business plan should be the basis for the new stage of reform.

104. Poland had decided to submit a candidate for the post of Director-General of UNIDO as a means of contributing to efforts to strengthen the Organization. The high-level professional position, dynamism and experience of the proposed candidate and his knowledge of the international environment, including UNIDO, would guarantee smooth and exemplary performance. Poland had successfully transformed its own economy and was well placed to share its experience with the developing countries.

105. **Mr. AL-ERYANI** (Observer for Yemen) said that the continued existence of UNIDO, which had a pioneering role to play in the industrial development of the developing countries, and particularly the LDCs, required the full support and cooperation of all Member States in identifying constructive, practical solutions to the problems which had inhibited the Organization's smooth operation.

106. The adverse impact of new global circumstances on the United Nations system generally and on UNIDO in particular called for realistic and objective solutions so that UNIDO would become an effective organization capable of discharging its duties and achieving its targets. The Organization's success would depend to a great extent on its structure, which should be as streamlined and simple as possible.

107. In the course of restructuring, the sensitive issue of job security for staff members needed to be addressed properly, bearing in mind the major impact of job security on performance. The Organization should not concern itself solely with restructuring and reform. Other issues also needed time and attention if positive results were to be achieved. Such results would be achieved, moreover, only through transparency and openness. His delegation would support all constructive efforts to that end.

108. The Secretariat's document on the draft budget lacked clarity and was incomplete. Budget cuts should not have an impact on the role of the Organization and its capacity to assist the least developed countries. If assistance were withdrawn, the role of the Organization would be diminished and its overall performance would be adversely affected.

109. **Mr. IKEDA** (Japan) said that the business plan was a significant result of sincere discussions between Member States. The spirit of cooperation between the developed and developing countries which had prevailed during that exercise had demonstrated the good working relationship between donors and recipients, in contrast to the traditional North-South confrontation and negotiations over wording. That cooperative spirit was a model for the new global partnership to which he had referred at the seventh special session of the Board and should be promoted further in the future phases of reform.

110. In the context of the business plan, it was important to send a strong message from Vienna to the constituencies of donor and recipient countries, announcing UNIDO's rebirth by focusing activities, tightening its budget and streamlining its organizational structure. UNIDO needed to demonstrate to the capitals and taxpayers of Member States that it was revitalized and truly worthy of their support.

111. The draft business plan was the result of compromise and did not reflect all the views of the Japanese Government or satisfy all the expectations of other Member States. Some had argued at the current session that to narrow down activities jeopardized the universal nature of UNIDO, while others had defended certain items in an attempt to ensure that they were not discontinued. However, a thorough reading of the business plan in its entirety would show that the sectoral concentration proposed for agro-based industries did not imply the total exclusion of non-agro-based industries. As far as upstream activities were concerned, including policy advice and institutional capacity-building, a careful reading would indicate that UNIDO service was not restricted to agro-based industries. In the programme of support for environmentally sustainable industrial development, UNIDO operations could cover all subsectors, and the refocusing of its activities could thus be seen to strengthen its function.

112. A number of hurdles still needed to be cleared for the successful implementation of the business plan, and the forthcoming phases might well be as difficult as the phase currently under way. The business plan provided only an outline for the future of UNIDO: the next step was to express that plan in concrete terms and ensure its successful implementation. The forthcoming session of the Programme and Budget Committee would be crucial, as Member States would then have to determine the future of UNIDO in budgetary terms.

113. As part of its stringent national fiscal reform process, the Japanese Government had recently decided to reduce appropriations for official development assistance (ODA) by 10 per cent in the 1998 fiscal year as compared with the current budget, and found it extremely difficult to maintain its current level of contributions, both assessed and voluntary, to any international organization. The situation was even more difficult than at the time of the Board's seventh special session earlier in the year. In Japan, furthermore, harsh criticism was increasingly being directed at inefficient and ineffective international organizations. To defend itself against such criticism, UNIDO would have to become cost-effective and truly worthy of support. Drastic budgetary reductions could undoubtedly be realized within UNIDO.

114. Another aspect to be considered was the situation of Germany, whose continued membership of the Organization was essential for maintaining UNIDO's viability. The consequences of Germany's withdrawal should be borne in mind in formulating the budget.

115. A 10 per cent reduction in the budget ceiling had little meaning as a political message, since it merely reflected the announced withdrawal of the United Kingdom and Australia. Therefore, when considering the extent to which the budget could be reduced without jeopardizing UNIDO's critical mass, various alternatives needed to be examined. He consequently proposed the consideration of a 30 per cent reduction in the budget ceiling for the coming biennium as an option alongside the proposed 20 per cent reduction.

116. On the management issue, it was important that the entire Secretariat should prepare itself for UNIDO's revival based on the business plan. The future Director-General should be someone outside the Organization who had had no link, past or present, with UNIDO. The first criteria should be capability and integrity, so as to inspire the greatest confidence in the leader of the new UNIDO, without regard for such customary practices as geographical rotation. It was important to have a candidate who could be supported by consensus. If necessary the Organization might have to be flexible and extend the deadline for the submission of nominations. His delegation had noted the announcement by the Polish delegation.

117. Given the need for a refreshed mind-set to prepare for the launching of the new UNIDO and breathe new life into it under the leadership of a new Director-General, the UNIDO Secretariat should adopt the United Nations practice that senior management staff offered their resignations on a change of leadership. Only those able to prove their capability and willingness to fulfil the challenging assignment of a revitalized UNIDO should be reposted. Under the present circumstances, any reallocation of senior management should be frozen until the new Director-General was in a position to allocate the staff within the new structure as and he deemed appropriate. The Japanese delegation shared the view on that point expressed by the Indian delegation on behalf of the Asian Group.

118. The importance of the active role of Member States in overseeing the implementation of the business plan could not be overemphasized. Member States should therefore continue to involve themselves in monitoring closely the implementation of the business plan so as to ensure a successful outcome of the reform process.

119. **Mr. CLERISME** (Observer for Haiti) said that his delegation wished to associate itself with the statement made on behalf of GRULAC and to reiterate its support for the plan to save UNIDO. It continued to uphold its nomination for the post of Director-General.

120. The two principal areas defined by the inter-sessional working group, namely, strengthening industrial capacities and clear and sustainable industrial development, had been noted and the proposal to consolidate and improve UNIDO's services to the LDCs was welcome. Member States were to be thanked for their contributions towards financing such services. The interest in the private sector and in the small and medium enterprises of the developing countries, particularly in Africa, was also welcome.

121. In view of the financial difficulties facing UNIDO and Haiti's conviction that those problems could be solved only if all Member States paid their contributions and their arrears, Haiti had paid over 90 per cent of its assessed contributions and had undertaken to pay the outstanding amount in full by the end of the year.

*The meeting rose at 6.08 p.m.*